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JPRS: ~~33/3~~

11 May 1960

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EXCERPTS FROM PEIPING'S FOREIGN ECONOMIC RELATIONS

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## FOREWORD

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JPRS: ~~33/3~~

CSO: 3661-D

## EXCERPTS FROM PEIPING'S FOREIGN ECONOMIC RELATIONS

Following is a translation of an unsigned article in Aus Politik und Zeitgeschichte, Beilage zur Wochenzeitung "Das Parlament" (Politics and Current Events, Supplement to the Weekly Newspaper "The Parliament.") Federal Republic of Germany, 3 February 1960, pages 60-64 and 79-86.7

### II. Chinese Soviet Relations

In China's economic relations with the Soviet Union there are four forms of cooperation to be considered:

1. Chinese-Soviet trade;
2. The part of the Soviet Union in the industrialization of China;
3. The so-called scientific-technical collaboration;
4. Credit grants by the Soviet Union to China.

In the standard work of the Academies of Sciences of all of the Communist Bloc countries, "The Socialist World Economic System," foreign trade is assigned the decisive role among all forms of cooperation. In this work it is stated that, "In the economic cooperation of the socialist countries foreign trade serves as an important form of mutual economic relations. All other forms of this cooperation are reflected to one degree or another in foreign trade and serve to further the growth of foreign trade among the socialist countries." (Das Sozialistische Weltwirtschaftssystem, The Socialist World Economic System, Moscow, 1958, page 104)

From this point of view, Chinese-Soviet foreign trade must be an indicator of all forms of economic relations between China and the Soviet Union.

#### 1. Chinese-Soviet Trade

From the publications of the Ministry of Foreign Trade of the USSR we now have detailed data on the extent and the development of Chinese-Soviet trade in the years from 1950 to 1959, i.e., for the ten years that the Chinese People's Republic has existed.

The Development of Chinese-Soviet Trade in the Years 1950-1959 (Millions of Rubles)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959*
Total Turnover	2306.1	3232.8	3871.9	4689.2	5350.6	5543.5	5989.0	5128.9	6061	7200
Chinese Deliveries to the USSR	753.2	1327.7	1655.0	1898.9	2313.4	2574.0	3056.9	2952.5	3525	4150
Soviet Deliveries to China	1552.9	1905.1	2216.9	2790.3	3037.2	2969.5	2932.1	2176.4	2536	3050
Chinese Deficit (-) or Surplus (+)	-799.7	-577.4	-561.9	-891.4	-723.8	-395.5	+124.8	+776.1	+989	+1100
Development of Trade in % (1952 = 100)										
Total Turnover	59.8	83.0	100	131.4	138.1	143.1	154.9	132.4	156.5	185.4
Chinese Deliveries to the USSR	45.4	80.2	100	114.7	139.7	155.0	184.7	178.4	212.9	250.7
Soviet Deliveries to China	70.0	85.9	100	126.0	137.0	133.9	132.3	98.2	119.7	137.6

\* The Chinese-Soviet Communique of 26 February 1959 reported agreement on a total commodity exchange amounting to 7.2 billion rubles for 1959. The other data are from the State Budget for 1959 (Hsinhua, 21 April 1959)

(The sources for the Table are based on official data of the Ministry of Foreign Trade of the USSR: Vneshnyaya Torgovlya /Foreign Trade/, No. 10/1957, pages 2 and 4; Der Aussenhandel der UdSSR mit den Sozialistischen Laendern /Foreign Trade of the USSR with the Socialist Countries/, Moscow, 1957, pages 44 and 53; Vneshnyaya Torgovlya za 1956 God /Foreign Trade for the Year 1956/, ditto for 1957 and 1958, yearly supplements to the magazine Vneshnyaya Torgovlya /Foreign Trade/; M. I. Sladkovskiy, Skizzen der Wirtschaftsbeziehungen der UdSSR mit China /Essays on the Economic Relations of the USSR with China/ Moscow, 1957, pages 310 and 332.)

If foreign trade is "an important form of cooperation," then the above table is actually an image of Chinese-Soviet economic relations.

From year to year the Chinese must deliver to the USSR more goods than they receive in return. China is really an important supplier of the USSR. The idea that the Chinese must deliver more goods to the USSR than they receive in return in order to make up the trade deficit of past years is only half true. Repayment with interest of Soviet credits, payment of "considerable sums" (Sladkovskiy) for the Soviet shares in the former Soviet-Chinese joint stock companies, Soviet aid in the construction of the Sinkiang Railroad, construction by the USSR of industrial plants in China -- all of these must be covered by the Chinese with goods deliveries. In almost all Chinese-Soviet agreements on Soviet "aid," one can find the provision that China is to pay for the "aid" through "export of the usual Chinese goods."

The Chinese must deliver goods to the USSR in payment for Soviet services not indicated in the trade statistics.

One who certainly knows how to do business, M. I. Sladkovskiy, Chief of the Eastern Division of the Ministry of Foreign Trade, USSR, writes: "Characteristic of complete deliveries [i.e., delivery of equipment for the complete outfitting of new or re-built plants, etc.] is not so much the export of the equipment itself, but much more the increase in the extent of various types of work connected with the complex technical aid rendered in the erection of the plant in which the equipment is to be installed. From the Soviet side, the delivery of complete equipment calls forth the participation, not only of commercial organizations, but also of scientific and production organizations; with the delivery of the equipment these organizations pass on to the Chinese side the scientific and production experience which they have accumulated in the various fields of construction and production.

"Before the Soviet organizations begin delivery of the complete equipment they must participate in the research work (select the site for the construction of the plant, taking into consideration rationality and economy of production; investigate the raw material sources for the future plant, etc.), carry out the planning work, and only then, once construction of the plant buildings has begun, go over to delivery of the equipment." (M. I. Sladkovskiy, loc. cit., page 335)

As for the value of these various Soviet services performed prior to delivery of the equipment, there are no data; the value could be learned only from the unpublished payment balance. From the various agreements we know only that China must pay with goods deliveries for these services, which are even performed in part in planning offices in Moscow.

As the above table on the total volumes of Chinese trade indicates, the Chinese experienced serious difficulties in their foreign trade in 1956 and 1957. The total foreign trade turnover of the VR China [Volksrepublik China -- People's Republic of China] evidenced a regressive tendency (1955: 10,989 Million Yuan; 1956: 10,875 million yuan; 1957: 10,353 million yuan). Because of poor harvests resulting from natural catastrophes, there was not enough agricultural produce available for export to pay for imports.

In this time of need, what form was taken by the "unselfish Soviet aid?" In these years of difficulty in their foreign trade the Chinese had to deliver more goods to the Soviet Union than in 1955: in 1955, 2574 million rubles; in 1956, 3056.9 million rubles (40.4% food and food raw materials); and in 1957, 2952.5 million rubles (29.6% food and food raw materials). While Chinese deliveries were reduced by only 3.5% in 1957 compared to 1956, Soviet deliveries to China were reduced in 1957 by 755.7 million rubles or 25.8%. Even Soviet export to China of machines and equipment was 10.1% less in 1957 than in 1956. Export of complete equipment for the plants to be built in China by the Soviets was reduced by 3.7% in 1957 and by 23.4% in 1958, compared to 1956.

The Soviets not only curtailed deliveries of machines and equipment, including the complete equipment for the plants to be built by the Soviets, they also reduced delivery of ferrous and nonferrous metals and chemical products. Of the most important products on the export list, only deliveries of petroleum products were increased, and that only slightly: from 344 million rubles in 1956 to 361.5 million rubles in 1957.

It is interesting to note that even Soviet authors were obliged to take notice of this decline.

In the above-mentioned work of the Market Research Institute of the Ministry of Foreign Trade, USSR, we read that, "The Significant deficits in Chinese trade with the USSR up until 1956 are to be explained by the large Soviet deliveries on account of the credits granted to China; on the other hand, the Chinese surpluses in 1957 are accounted for by Chinese deliveries in payment of those credits." (Ya. N. Kapelinskiy, L. A. Kisvyantsev, M. S. Pankin, Ya. A. Pekshev, V. P. Senin, and V. G. Sichev, Die Wirtschaftsentwicklung und die aussenwirtschaftlichen Verbindungen der Chinesischen Volksrepublik [The Economic Development and the Foreign Economic Ties of the Chinese People's Republic], Market Research Institute of the Ministry of Foreign Trade, USSR, Moscow, 1959, page 441)

Data are available on this capitalistic debit and credit figuring in Chinese-Soviet trade. We have data on the Chinese deficits and surpluses in their trade with the USSR and also data on Chinese use of Soviet credit grants. Below is a summary.

<u>Year</u>	<u>Chinese Deficits (-) and Surpluses (+) in Trade with the USSR (million rubles)</u>	<u>Use of Soviet Credits (million yuan)</u>
1950	-799.7	
1951	-577.4	2,174
1952	-561.9	
1953	-891.4	438
1954	-723.8	884
1955	-395.5	1,657
1956	+124.8	117.4
1957	+776.1	23.3
1958	+989.0	0

(Data on credit use for 1950-52 and 1956/57 from Hsinhua, 29 June 1957; for 1953-55 from the Chinese periodical Finance, No. 8, 1957, cited in Economic Survey of Asia and the Far East 1957, Bangkok, 1958, page 103. Data on Chinese deficits and surpluses from Vneshnyaya Torgovlya za 1958 god [Foreign Trade in 1958], loc. cit.)

Business is business and friendship is friendship! Other Communist Bloc countries such as Poland, Albania, and the SBZ [Sowjetische Besatzungszone -- Soviet Occupation Zone] were granted extensions on their credit payments, and in many cases these were cancelled. China must pay everything promptly.

The Netrusov mentioned above writes that, "At the end of the five-year plan China had used up most of the credits granted her by the Soviet Union through imports from the Soviet Union." (Die Wirtschafts-entwicklung der Laender der Volksdemokratie [The Economic Development of People's Democracies], Moscow, 1958, pages 150 and 151)

This is also a reflection of Chinese-Soviet economic relations, an example of "unselfish help." In the time of their difficulty, no Soviet credits were available to the Chinese. Or did the Chinese themselves choose to forego new credits, even at the price of reduced Soviet deliveries and difficulties in purchase?

Netrusov writes further: "Deliveries of complete equipment and material were reduced somewhat in 1957 as compared with 1956. The reason for this reduction was that in the past year in China great

attention was devoted to the satisfaction of internal imported equipment with internally produced equipment for the plants planned for construction."

This statement constitutes an admission that the Chinese are making an effort to become more independent of Soviet equipment export. Such Chinese efforts are actually evident, and the Chinese refusal of additional credits also points in this direction.

But there are contradictions here. The Chinese may have declined increased Soviet machine and equipment deliveries in 1957 because they were able to satisfy their requirements through their own production, but in 1959 there was no longer any talk of such a refusal. After the Chinese leaders, in December 1958 and again at the XXI Party Congress at Moscow in February 1959, fell in with the line of Khrushchev, particularly on the question of the people's communes, the Soviets offered them the prospect of delivery of equipment for 78 new industrial plants. Also after the Moscow party congress, in a communique issued 26 February 1959, a supplemental delivery of goods valued at 600 million rubles "for the fourth quarter of 1958" and an increase in the goods turnover volume for 1959 to 7.2 billion rubles was granted.

All of this only proves that the political tug-of-war between Moscow and Peiping is reflected in Chinese-Soviet economic relations.

After the XXI Party Congress at Moscow the Soviet China specialist, M. I. Sladkovskiy, speaks of a "new upswing" in Chinese-Soviet trade. (Vneshnyaya Torgovlya /Foreign Trade/, No. 10, 1959, page 9)

In the Soviet-Chinese protocol of 23 April 1958 a trade volume of 5.2 billion rubles was foreseen for 1959. As noted above, a supplemental increase in goods turnover for 1958 was first announced in a communique of 26 February 1959. Of the Soviet deliveries to China in 1958, 50.1% or 1,271.8 million rubles (from a total of 2,536 million rubles), consisted of machines and equipment. Even so, Soviet export to China of equipment for the complete outfitting of industrial plants was sharply reduced: 867.8 million rubles in 1956, 836.1 million rubles in 1957, and only 664.6 million rubles in 1958.

The Soviet Union delivered chiefly electric power equipment to China in 1958: turbine generators, diesel generators, power transformers, mobile power plants, and small hydraulic power installations for the rural areas.

In Chinese exports to the USSR products of the textile industry were outstanding.

Pork, vegetable oils, peanuts, poultry, eggs and egg products underwent heavy reductions in Chinese exports. As noted, the Chinese must cover all imports from the USSR with "traditional export goods." (Sladkovskiy).

Industrial raw materials and foodstuffs lead the list of Chinese exports to the USSR. In the framework of the Soviet seven-



year plan China is assigned the role of supporting the great industrial build-up in Western and Eastern Siberia and the Far East, i.e., in the areas which border on China, through deliveries of raw materials and foodstuffs. (M. I. Sladkovskiy, loc. cit., pages 347 and 349)

Sladkovskiy writes: "The might reserves in China of tungsten, tin, molybdenum, mercury, and other non-ferrous and rare metals and alloys, and the increase in their mining and production, will enable China, over a long period of time to become the chief supplier of these metals to the socialist countries, including the Soviet Union." (M. I. Sladkovskiy, loc. cit., pages 347-349)

Since 1956 Chinese food export to the Soviet Union has undergone certain structural changes, the ratio of processed agricultural products to food raw materials increasing, but foodstuffs still remain a decisive Chinese export item to the USSR.

#### Chinese Food and Food Raw Materials Export to the USSR

<u>Year</u>	<u>Millions of Rubles</u>	<u>Percentage of Total Chinese Exports to the USSR</u>
1950	355.3	47.2
1951	437.1	32.9
1952	728.0	44.0
1953	843.4	44.5
1954	1,057.0	45.7
1955	1,127.0	43.8
1956	1,237.2	40.4
1957	870.9	29.6

But China must also supply the other Communist Bloc countries with foodstuffs. In 1956 foodstuffs made up 75% of Chinese exports to the Soviet Occupation Zone of Germany and 47% of Chinese exports to Poland. In 1957 the proportion of foodstuffs was only slightly smaller.

Not until 1958 did China substantially reduce her food exports to the USSR and other bloc countries. Even so, as Chou En-lai pointed out on the Tenth Anniversary of the People's Republic, a great part of China's exports still consists of agricultural products. According to the same source, the proportion of industrial products in the total volume of Chinese exports is climbing slowly: from 9% in 1950 to 27.5% in 1958.

## 2. Construction of Industrial Plants in China by the USSR

Soviet assistance in the industrialization of China has an important place in Chinese-Soviet economic relations. As Chou En-lai pointed out at the VIII Party Congress of the KPCh [Kommunistische Partei Chinas -- Communist Party of China] in September 1956, the plants to be built in China by the Soviet Union constitute the heart of the country's industry. We now have available rather extensive material on the degree and extent of Soviet activity in the industrialization of China.

The construction projects being carried out in China by the Soviet Union are primarily key industrial plants. In China these plants come under the concept of "above-norm construction projects," i.e., plants, the costs of which lie above a certain investment norm. In the case of iron and steel, truck and tractor manufacture, ship-building, and locomotive and railroad car building, for example, this norm amounts to 10 million yuan. At the time of the publication of the first Chinese five-year plan in July 1955, 694 above-norm construction projects were foreseen; the core of these were to be the 156 USSR projects, i.e., according to the plan, about 22.4%. (Li Fu-ch'un, Bericht ueber den ersten Fuenfjahresplan [Report on the First Five-Year Plan], Berlin, 1956, page 17)

As an example it might be mentioned that according to the report of the State Statistics Bureau of the People's Republic of China, 124 new industrial plants (above-norm construction projects) went into operation in China in 1956; of these, 24 were built with the aid of the Soviet Union. Thus, about 20% of the plants built in China in 1956 fell to the share of the Soviet Union. (Druzhiba [Friendship], 3 January 1957)

In the course of the five-year plan the Chinese raised the planned goals. By the end of 1957 there were actually 825 plants under construction instead of 694, i.e., 131 more than originally planned. By the end of the first five-year plan a total of 449 above-norm plants had been put in operation, including 57 built with the assistance of the USSR. (Das kleine China-Handbuch [Little China Handbook], Peiping, 1958, page 143)

Shortly before the end of the first five-year plan the Chinese Planning Chief, Li Fu-ch'un, reported as follows: "By the end of the year 1957, 450 of the more than 820 large industrial enterprises under construction will be completed. Of these, 57 belong to the 156 industrial projects being carried out with the assistance of the Soviet Union. This does not include 10 additional plants which are only partially completed." (Hsinhua, 7 December 1957. The Chief of the State Statistical Bureau, Sueh Mu-tsiao, gives the following data: "During the five years 537 above-norm industrial plants were constructed and became fully or partially operational, compared with 455 in the plan. Of the 156 important projects planned for construction

with the aid of the Soviet Union, 127 were under construction, 52 had been put into operation completely, and 12 were partially operational." Sovetskoe Vostokovedenie /Soviet Oriental Studies/, No. 5, 1958, page 40)

Of the roughly 450 plants built in China by the end of the first five-year plan, 57 were completely finished by the Soviet Union and 10 partially finished, i.e., at the most, 14%. We now have newer data on the importance and weight of these 57-plus-10 plants built with the aid of the USSR.

The Moscow foreign trade periodical Vneshnyaya Torgovlya reports: "In the years of the first five-year plan 67 industrial works built in China with the aid of the Soviet Union became fully or partially operational: 8 metallurgical plants, 28 machine-building plants, 15 electric power stations, 6 coal mines and coal processing plants, 4 chemical plants, and others." A general picture of the production capacities of these plants is also becoming available: "The plants built with the assistance of the USSR provided China in 1957 with 2.8 million tons of coal produced in China; the total capacity of the electric power stations built with Soviet aid amounted to 680,000 kilowatts from the total Chinese production of 4.4 million kilowatts." (Vneshnyaya Torgovlya, Foreign Trade, No. 2, 1959, page 8)

According to these figures the plants built in China with Soviet aid by the end of 1957 accounted for 52.8% of Chinese steel production, 48.4% of its coal production, and about 15% of its electric power production. The small Soviet share in electric power production is significant, for the shortage of electric power is a bottleneck in the Chinese economy. But in the case of coal and steel, Mao Tse-tung had changed the ratio greatly in his favor by 1958 by producing through the "great-leap-forward" 270 million tons of coal and 11 million tons of steel. But it should not be forgotten that the key industrial plants built by the Soviets provided the initial impetus.

As the Chinese increased their planned goals for the construction of industrial plants in the first five-year plan, the Soviets also expanded their program for the industrialization of China.

In the years from 1950 to the present the Soviet Union has undertaken formal obligations to build a total of 336 industrial plants in China. Soviet aid to the industrialization of China has been formalized in six Chinese-Soviet agreements. These six agreements are:

1. Agreement of 27 March 1950 for	50 plants
2. Agreement of 15 May 1953 for	91 plants
3. Agreement of 12 October 1954 for	15 plants
4. Agreement of 7 April 1956 for	55 plants
Total from agreements in the first five-year plan	211 plants
5. Agreement of 8 August 1958 for	47 plants
6. Agreement of 7 February 1959 for	78 plants
After the first five year plan	125 plants

According to the wording of all of these agreements the cost of constructing the plants are divided into three types: (a) equipment deliveries; (b) planning work; (c) other forms of technical aid.

Thus, for example, in the communique concerning Agreement # 4, it is stated that, "The total value of the equipment deliveries, the planning work, and the other forms of technical assistance provided by the Soviet Union in the construction of the aforesaid plants amounts to approximately 2.5 billion rubles. The Chinese government will pay this sum in the future through delivery of goods." (Pravda, 8 April 1956)

There is no detailed information on the costs of the planning work and the other forms of technical assistance. The equipment deliveries, on the other hand, are indicated for each year in the foreign trade statistics of the USSR. Moreover, we now have more precise data on the total value of the "equipment deliveries, planning work, and other forms of technical assistance" for the entire Soviet program.

The total value of the 156 plants covered by Agreements 1-3 was estimated at 5.6 billion rubles. (Die Wirtschaftsentwicklung der Volksdemokratie Asiens /The Economic Development of the People's Democracies of Asia/, Moscow, 1957, page 184; Protokoll des XX. Parteitages der KPdSU /Report of the XX Party Congress of the Communist Party of the Soviet Union/, Moscow, 1956, page 13)

As indicated above, the plants of the 4th agreement were to cost 2.5 billion rubles. (Pravda, 8 April 1956)

From the above we arrive at a total value of 8.1 billion rubles for the 211 plants which the Soviet Union agreed to build in the years 1950 to 1957. The periodical of the Ministry of Foreign Trade, USSR, reported in February 1959 that "A program for aid to China in the construction of 211 large industrial plants and other projects was agreed upon between the governments of the USSR and the People's Republic of China. The total value of the Soviet equipment required in the construction of these plants, together with the planning work and other forms of technical assistance, amounts to 8.1 billion rubles." (Vneshnyaya Torgovlya /Foreign Trade/, No. 2, 1959, page 7)

No data are available on the value of the 47 plants covered by the 5th agreement. Moreover, this agreement has a different character than the others; more will be said of this later.

The 6th agreement was published only recently. It provides for construction during the nine years from 1959 to 1967 of a total of 78 plants with a total value of equipment, planning work, and other technical assistance amounting to 5 billion rubles. (Pravda, 8 February 1959) Let us consider first Soviet delivery of equipment for these plants; as already noted, the equipment deliveries constitute only a part of the total value of the plants. Equipment delivery for this purpose is listed separately in the foreign trade statistics of the USSR under the heading "complete equipment."

Soviet Deliveries to China of Equipment for the Complete Outfitting  
of Plants, 1950 - 1958

<u>Year</u>	<u>Millions of Rubles</u>	<u>Percentage of Total USSR Exports to China</u>
1950	4.1	0.3
1951	128.9	6.8
1952	162.6	7.3
1953	197.1	7.1
1954	372.3	12.2
1955	542.1	18.3
1956	867.8	29.6
1957	836.1	38.4
<hr/>		
Total by the end of the first five-year plan:	3,111.0	
<hr/>		
1958	664.6	26.2

To begin with, we might recall that Netrusov valued these equipment deliveries up to the end of the first five-year plan at 3 billion yuan, i.e., 3,111 billion rubles at the "internal exchange rate" of 1 ruble = .0975 yuan.

Thus, by the end of 1957 the Soviet Union had delivered industrial equipment valued at 3,111 million rubles. This equipment served for the construction and the complete or partial putting into operation of 67 plants, including 8 metallurgical plants, 28 machine-building plants, 15 electric power stations, 6 coal mines and coal processing plants, 4 chemical plants, and other enterprises. According to data of the Chief of the Chinese Statistical Bureau an additional 60 large enterprises and projects were under construction at the end of 1957; a large part of the equipment for these plants had presumably already been delivered.

In November 1958 we are told that, "The construction of more than 200 industrial plants built with Soviet aid will be completed by 1962." (Vneshnyaya Torgovlya /Foreign Trade/, No. 11, 1958, pages 15-16)

In February 1959 -- as noted above -- the organ of the Ministry of Foreign Trade, USSR, reported that the USSR was building 211 plants in China with a total value of 8.1 billion rubles.

But only two months later, at the first session of the II National People's Congress, Deputy Premier and Planning Chief

Li Fu-chun informed his surprised colleagues that there could no longer be any talk of 211 plants. He said that in the process of construction some of the 211 plants had been combined and that as a result the number was reduced to 166. (Hsinhua, 21 April 1959) According to this peculiar and sudden correction from an official source, we are to replace the 211 plants valued at 8.1 billion rubles with 166 plants with a total value of 8.1 billion rubles.

According to Li Fu-chun, 113 of these 166 plants had been wholly or partially completed by the end of 1958 and put into operation.

There remain then 53 plants plus 125 plants (Agreements # 5 and 6), that is, a total of 178 industrial plants on which the USSR is still working at the beginning of this year (1959). [See Note] The final goal for the completion of these plants, according to the most recent agreement, is the year 1967. Of the 166 plants valued at 8.1 billion rubles, about 68% -- according to the data of the Minister -- were wholly or partially completed by the end of 1958. This gives us 112 plants with an estimated value of 5.5 billion rubles (68% of 8.1 billion rubles); this value covers all three costs, i.e., complete equipment, planning work, and other forms of technical assistance.

[Note] The publication of the Ministry of Foreign Trade, USSR, now informs us that -- including the latest agreement -- the USSR has undertaken construction of 291 plants and 59 industrial divisions and installations, i.e., during the period 1950 to 1959. These data are in agreement with those of Li Fu-chun. From the same source we learn that by the beginning of 1959 the USSR had completed, wholly or partially, 135 plants and industrial divisions and installations in China. One may assume that the figure 135 consists of the 113 plants plus 22 industrial divisions and installations. (Vneshnyaya Torgovlya [Foreign Trade], No. 9, 1959, pages 10-11.)

The value of Soviet equipment deliveries for complete plants for the years 1950 to 1958 inclusive was given above as 3,775.5 million rubles. It must be assumed that these deliveries included, not only the equipment for the 113 completed plants, but also equipment for such plants as are still under construction at this time.

Accordingly, it must be that Chinese outlays for the other two items (Soviet planning work and other technical aid), as well as the outlays for payment of Soviet specialists, transportation costs, and other costs connected with the erection of the 113 plants, were by no means small.

The planning work and the other forms of technical assistance do not appear in the trade balance. Nevertheless, as noted above, the Chinese must pay for these services with goods deliveries.

Soviet aid to date in the industrialization of China should not be underrated; nevertheless, from the point of view of quality there is a regressive tendency. To be sure, the USSR exported more equipment and machinery to China in 1958 than in 1957 (1.09 billion rubles worth in 1957, 1.27 billion rubles worth in 1958), but the qualitative

retrogression is reflected in Soviet deliveries of complete plant equipment. In 1958 the USSR delivered 20.6% less complete equipment than in 1957 and 23.4% less than in 1956. Of course, these machines and equipment of the general sort also serve the industrialization of the country, but the heavy reductions in the export of complete plant equipment indicate that the Chinese, with their "great leap forward," having laid the bases of industrialization, are developing much more initiative and independence in their industrialization program.

At the time of the publication of the first five-year plan in 1955, 156 of the 694 above-norm plants to be built in China during the five year period fell to the lot of the Soviet Union; by the beginning of 1959 the picture had changed. As indicated, Chou En-lai has stated that 788 above-norm projects are under construction in China in the year 1959 (plan figures reported for 1959). The USSR is to build a total of 178 plants in China in the nine years from 1959 to 1967. New investments in China for the build-up of industry amounted to 27.6 billion yuan in the five years of the five-year plan. (Ganshin, G. A., Die Wirtschaft der VRCh /The Economy of the People's Republic of China, Moscow, 1959, page 71; Sovetskoe Vostokovedenie /Soviet Oriental Studies, No. 5, 1958, page 40) The Soviets during these five years delivered 2745 million yuan worth of complete plant equipment.

We have indicated elsewhere that in the first years of the five-year plan the Chinese were able to contribute only about 30%, and qualitatively only in a minor way, to the construction of the plants to be built by the Soviets. But the new tendency, the growing role of Chinese industry and the change in quality, is becoming more and more apparent. "In 1957 the imported Soviet equipment accounted for 58% of the equipment used in the outfitting of the plants being built with the aid of the Soviet Union; in 1958 this was reduced to 40%!" (Die Wirtschaftsentwicklung der Laender der Volksdemokratie /The Economic Development of the People's Democracies, Moscow, 1958, page 151)

Today Chinese industry provides 60% of the machines and equipment for the plants which the USSR is building in China!

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#### IV. China and the African and Asian Countries

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##### 2. China and the Underdeveloped Countries of Asia and Africa

The important turning point in China's economic relations with the underdeveloped countries of Asia was the Bandung Conference in April 1955. Just as the Soviets first "discovered" the underdeveloped countries after this conference and subsequently began to develop an active program of economic aid, so too did the Chinese undertake their first substantial economic relations with these countries after the Bandung Conference.

Prior to the Bandung Conference (1955) the Chinese had trade relations with four countries on the basis of agreements at the governmental level. These four countries were: Ceylon (first trade agreement 14 September 1952), Indonesia (trade agreement 30 November 1953), Burma (trade agreement 22 April 1954), and India (first trade agreement 14 October 1954, Tibet Agreement on 26 April 1954). To this one can also add the 14 March 1953 contract between China and Pakistan in which it was agreed to exchange 200,000 tons of Chinese coal for 10,000 tons of cotton from Pakistan.

After the Bandung Conference China made the following agreements at the governmental level with the countries of Asia and Africa; first trade agreement with Egypt, 22 August 1955; trade and payment agreement with Syria, 30 November 1955; trade agreement with Lebanon, 32 December 1955; trade and payment agreement with Cambodia, 24 April 1956; agreement on trade and traffic between Tibet and Nepal, 20 September 1956; trade agreement with Morocco, 27 May 1957; trade and payment agreement with Afghanistan, 28 July 1957; agreement on economic relations with the Sudan, 30 December 1957; five-year trade contract with Yemen, 12 January 1958; first trade agreement with Tunisia, 25 September 1958; and a trade and payment agreement with Iraq, 3 January 1959. (Kapelinskij, loc. cit.)

Although China did not normalize its trade relations with the Afro-Asian countries until recent years, it has already enjoyed a number of beginning successes.

By way of comparison, let us list the trade turnover of the USSR with the countries of Asia and Africa:

The Trade Turnover of China and the USSR with Certain Countries of Asia and Africa in the Year 1957  
(Export-Import in Millions of Rubles)

	<u>China</u>	<u>USSR</u>
Ceylon	211.2	1.2
Indonesia	212.1	101.5
Burma	86.4	62.1
Pakistan	69.2	27.2
India	71.8	506.4
Egypt	250.8	772.5
Syria	11.6	39.2
Morocco	67.2	24.5
Japan	563.8	68.4

(Kapelinskij, loc. cit.; Vneshnyaya Torgovlya SSSR za 1957 god  
/Foreign Trade of the USSR in the Year 1957/)



To be sure, the development of trade between China and the countries of Asia and Africa is no key to China's economic aid to these countries. In this, China is making the first tentative steps.

While the Soviets granted the underdeveloped countries a total of 6 billion rubles in the years 1954-1959 (counting the 400 million rubles which the Negus of Ethiopia took home from Moscow as a credit pledge in the middle of July 1959 and the 1.5 billion rubles promised India for her third five-year plan at the end of July 1959 and contracted for in September 1959), the Chinese committed themselves during the same period to credits and non-repayable aid totalling about 500 million rubles. At first, China was obliged to leave to the big brother in Moscow the satisfaction of the Asian countries' requirements for large installations, the construction of steel plants, large dams, etc.

China has granted credits and outright gifts to a total of seven Asian and African countries: Cambodia, Nepal, Ceylon, Indonesia, Yemen, Burma, and Egypt.

#### (a) Outright Gifts and Credits to the Underdeveloped Countries

The following is reported concerning China's outright gifts to the underdeveloped countries: "In recent times China has made agreements for non-repayable aid with Cambodia (21 June 1956), Nepal (7 October 1956), and Ceylon (19 September 1956). The aid specified in these agreements totals 203 million rubles. Additionally, in October 1956 China gave Egypt a credit of 20 million Swiss francs (18.7 million rubles) which was later granted to Egypt as an outright gift." (Die Wirtschaftsentwicklung der Laender der Volksdemokratie /The Economic Development of the People's Democracies/, page 185) The original credit grant to Egypt was reported by the newspaper Ta Kung Pao on 25 October 1956; the subsequent conversion to a gift took place on 10 November 1956 as a result of the Suez Crisis. (Das kleine China-Handbuch /Little China Handbook/, Peiping, 1958, page 275)

The gifts to the four countries were to be distributed as follows:

#### The Payment Periods of the Non-Repayable Aid (in Millions of Rubles)

1956	=	45	1960	=	13
1957	=	80*	1961	=	13
1958	=	29	1962	=	13
1959	=	29			

\* Including the gift to Egypt

Let us discuss first the outright gifts. By the terms of the economic aid agreement drawn up in Peiping on 21 June 1956 between the governments of the Chinese People's Republic and the Kingdom of Cambodia, China granted Cambodia an outright gift amount to 800 million rials (8 million pounds sterling).

This aid was used in the years 1956 and 1957 in the construction of a textile and paper factory, a cement plant, and a plywood plant, plus construction of hydrotechnical agricultural installations, schools, sports facilities, streets, and bridges.

Five hundred million rials went to the construction of the factories; eight Chinese specialists who helped to design these factories worked in Cambodia from November 1956 to March 1957. Twenty-five million rials went to the construction of two hospitals in Phom-Penh and Swai-Rieng, and an additional 25 million rials to the development of agriculture. Within the framework of this aid China delivered at the end of April and beginning of May 1957, 800 tons of rolled steel, 4.6 million meters of cotton fabric, 36.3 tons of cotton yarn, and 11 tons of raw silk. The proceeds from these Chinese goods delivered within the framework of the non-repayable aid are to go to the construction of bridges, streets, and communal facilities. (Vneshnyaya Torgovlya /Foreign Trade/, No. 6, 1959, page 24)

The economic aid agreement drawn up between China and Nepal in Peiping on 7 October 1956 states that, "The People's Republic of China will give the Kingdom of Nepal a free grant of 60 million Indian rupees in a period of three years from the signing and effective date of this agreement. Of the 60 million Indian rupees, one third will be paid out pro rata in foreign currency and two thirds in machines, equipment, materials, and other commodities which the Kingdom of Nepal needs and which the People's Republic of China is able to deliver ... technical personnel are not to be sent to Nepal in connection with this aid. The government of the Kingdom of Nepal is to have complete freedom in the use of the above-named monies and goods, and the People's Republic of China is not to interfere." (Text of the agreement in the language of the Institute of Asian Studies in Hamburg: Frankfurt/Main-Berlin, 1957, pages 96-97).

From another source we learn that, "According to the agreement of 7 October 1956 with the Kingdom of Nepal the People's Republic of China is to grant Nepal in the course of three years non-repayable aid in the amount of 60 million Indian rupees (12.6 million U.S. dollars). A third of this gift is to be in cash, two thirds in deliveries of machines, equipment, raw materials, and other goods from a list to be agreed upon by the parties to the agreement.

"According to reports in the Chinese press the government of Nepal received 40 million Indian rupees from the Chinese government at the beginning of February 1957; the remaining 10 million Indian rupees were given to Nepal in February 1958." (Die Wirtschaftsentwicklung der Laender der Volksdemokratie /The Economic Development of the People's Democracies/, pages 186-187; The Times of India, 11 February 1958)

An aid agreement between China and Ceylon was drawn up in Peiping on 19 September 1957. This agreement became effective on 1 January 1958. It provides for gift aid from China to Ceylon in the amount of 75 million 6Rp /ceylonsche Rupies -- Ceylonese rupees/ to be paid out over five years at 15 million rupees per year. The 75 million rupees is to go to the establishment of rubber plantations in Ceylon. It will be paid out in commodities on the basis of world market prices, using the Ceylonese rupee as the unit of computation.

During the period 1956 to 1958 China granted regular credits to four underdeveloped countries: Indonesia, Yemen, Burma, and Ceylon.

### Indonesia

The first Chinese credit to Indonesia noted in Chinese and Soviet reports was agreed to in Peiping on 3 November 1956 in the amount of 15 million U.S. dollars.

Concerning this credit we read that, "In foreign trade with Indonesia in recent years large surpluses in favor of the Chinese People's Republic were accumulated. After a time they totalled almost 6 million pounds sterling. Indonesia's payment balance was in any case already unfavorable. With this in mind, the Chinese People's Republic volunteered to pro-rate the debts over the next three years so that Indonesia could pay in export commodities rather than cash. In effect, China granted Indonesia a credit without interest." (Kapelinskij, loc. cit., page 490)

On 17 April 1958 a new agreement was drawn up in Djakarta according to which China granted a credit of 48 millions /Swiss francs/ to Indonesia "with favorable conditions." (Vneshnyaya Torgovlya /Foreign Trade/, No. 2, 1959, page 7; and No. 5, 1959, page 22)

"According to reports of the Indonesian press, the People's Republic of China is also granting Indonesia a credit to finance the construction of a textile plant." To date, nothing is known about the amount of this credit.

### Yemen

With the conclusion of the agreement on scientific, technical, and cultural collaboration between China and Yemen signed in Peiping on 12 January 1958, China granted Yemen an interest-free credit in the amount of 70 million Swiss francs (65.4 million rubles). This credit is specified for payment of Chinese goods deliveries. Repayment is to be made in equal yearly amounts over a period of 10 years in Swiss francs, pounds sterling, or in commodities from Yemen acceptable to China. (Vneshnyaya Torgovlya, /Foreign Trade/, No. 2, 1959, page 7, and No. 5, 1959, page 22; Kapelinskij, loc. cit., page 490; Die Wirtschaftsentwicklung der Laender der Volksdemokratie /The Economic Development of the People's Democracies/, page 187)

## Burma

"In January 1958 the People's Republic of China granted Burma a loan in the amount of 20 million kyats (16.9 million rubles) at 2.5% annual interest. This loan is to be used for the construction of a cotton spinning plant with 40,000 spindles." (Die Wirtschafts-entwicklung der Laender der Volksdemokratie /The Economic Development of the People's Democracies/, page 187; Hindustan Times, 12 January 1958.)

## Ceylon

In addition to the outright gift of 75 million Ceylonese rupees which China gave Ceylon in accordance with the aid agreement of 19 September 1957, it was also agreed at negotiations between the two countries at Colombo on 17 September 1958 that China would grant Ceylon a credit of 50 million Ceylonese rupees. (Vneshnyaya Torgovlya /Foreign Trade/, No. 2, 1959, page 7)

The preceding covers the total credits and outright gifts which China has granted other countries according to the data which has become available to date. Before we turn to Chinese technical assistance in underdeveloped countries, let us take a look at a summary of Chinese "financial" aid:

### Outright Gifts and Credit Grants by China to Other Countries in the Years 1953 to 1959 (Summary)

Country	Date	Type and Purpose	Amount	Millions of Rubles*
Albania	20 October 1954	Gift on the 10th Anniversary of the Albanian People's Republic	10 million rubles	10
Albania	3 December 1954	Credit for the years 1955-1960	50 million rubles	50
Albania	16 January 1959	Credit for the years 1961-1965	55 million rubles	55
Hungary	1956	Outright gift in commodities	30 million rubles	30
Hungary	13 May 1957	Credit, half in free currency	200 million rubles	200
North Korea	23 November 1953	Debt cancellation	280 million yuan	287.2

Country	Date	Type and Purpose	Amount	Millions of Rubles*
North Korea	23 November 1953	Outright gift in goods deliveries for the years 1954-1957	800 million yuan	820.5
North Korea	27 September 1957	Interest-free credit for construction of the Unbon hydro-power plant	40 million rubles	40
North Korea	27 September 1957	Credit at 1% for construction of three factories	170 million rubles	170
North Vietnam	7 July 1955	Outright gift in equipment and commodities	800 million yuan	820.5
North Vietnam	18 February 1959	Outright gift	100 million yuan	102.5
North Vietnam	18 February 1959	Credit for construction and expansion of 49 projects (in connection with the above 100 million yuan gift)	300 million yuan	308
Mongolia	29 August 1956	Outright gifts for the years 1956-1959	160 million rubles	160
Mongolia	29 December 1958	Credit for the years 1959-1961 for the construction of installations	100 million rubles	100
Cambodia	21 June 1956	Outright gift for 1956-1957 for construction of factories and installations	800 million rials	89.6

Country	Date	Type and Purpose	Amount	Millions of Rubles*
Nepal	7 October 1956	Outright gift, 1/3 in cash, 2/3 in goods in three years	60 million Indian rupees	50.4
Ceylon	19 September 1957	Outright gift pro-rated over five years for rubber plantations	75 million Ceylonese rupees	63.7
Ceylon	17 September 1958	Credit	50 million Ceylonese rupees	42.5
Egypt	10 November 1956	Gift resulting from Suez Crisis	20 million Swiss francs	18.7
Indonesia	3 November 1956	Payment post- ponement- credit	16 million dollars	60
Indonesia	17 April 1958	Credit at 2.5% for payment for rice and textiles	48 million Swiss francs	44.8
Burma	11 January 1958	Loan at 2.5% for construction of a cotton spinning plant	20 million kyat	16.9
Yemen	12 January 1958	Credit for goods deliveries	70 million Swiss francs	65.4
Total in rubles				3,605.7

(\* Wherever the amount was not given in rubles in the official figures the conversion has been made in accordance with the currency table of the State Bank of the USSR; yuan conversions at the "internal rate" of 0.975 yuan per 1 ruble).

Our table shows a total of 3,605.7 million rubles, or about 900 million U.S. dollars in Chinese aid to other countries, and our data are certainly not complete. In figuring the yuan values for the Chinese grants to North Korea and North Vietnam it was necessary to ignore the Moscow currency quotation (100 yuan - 200 rubles) (Currency Table of the State Bank of the USSR of September 1958 and available data from the People's Bank of China in Peiping). The above sums are shown in the (to China) unfavorable rate, the so-called "trade ruble." Nevertheless, the results are noteworthy.

It should be remembered that, according to the report of the Chinese Minister of Finance to the National People's Congress, the USSR has granted China credits totalling 3,120 million yuan since 1953, i.e., at the "internal rate," 3,200 million rubles. (Hsinhua, 29 June 1957)

Thus, the credits and gifts which China has granted to other countries in the period since 1953 makes a higher total than Soviet aid to the industrialization of China during the same period. China granted the three Asian Bloc countries alone a total of 2,808 million rubles during this period compared to the USSR's total aid to China of 3,200 million during the same period.

These comparisons and the amount of aid given by China to other countries indicate that China, which has managed to do without Soviet credits since 1957, is being transformed from a borrower to a creditor.

#### (b) Technical Aid

China is also beginning to develop a form of technical assistance to the underdeveloped countries. This aid has been chiefly in the realm of construction for the textile industry, light industry, and food industry in these countries. A key to the character of China's technical assistance can be obtained from examination of her equipment export, in particular the export of complete plant equipment.

Concerning this we have the following report: "At the present time the Chinese People's Republic delivers complete plant equipment for cotton textile plants, beginning with equipment for cleaning the raw cotton and extending to weaving machines. In 1956 China exported to Burma a complete outfit for a textile plant with 21,600 spindles and 196 automatic looms, and also 10 spinning machines and 250 looms to Egypt. In 1957 the representative in China of a large cotton spinning plant in Egypt purchased 400 textile machines and appropriate spare parts. At the end of 1957 complete equipment for a weaving plant was exported from China to Djakarta on the order of the Indonesian firm "Geneva." The Chinese foreign trade organizations exported in the past year complete equipment for knitting factories in Indonesia and also exported knitting machines to Burma, Syria, and the Sudan.

In addition to equipment for textile and knitting plants, the Chinese foreign trade organizations delivered to the markets of Asia

and Africa complete equipment for paper plants, sugar refineries, cement works, rice processing plants, oil mills, bicycle factories, match factories, equipment for food preparation, and equipment for small factories for notions manufacture (stickpins, sewing needles, buttons, etc.). In 1957 the People's Republic of China began to export equipment for the printing industry; this was purchased by business circles in Singapore, Indonesia, Burma, and India. Complete equipment for soap-making plants, bicycle tire and tube enterprises, and equipment for the manufacture of wire and nails was also exported." (Die Wirtschaftsentwicklung der Laender der Volksdemokratie / The Economic Development of the People's Democracies /, page 175)

All of this, of course, only represents beginnings. These exports are still relatively small and their importance should not be exaggerated. For that very reason no detailed statistics have yet been published on the value of Chinese export of complete plant equipment to the underdeveloped countries. But these examples indicate that Chinese deliveries of equipment to the countries of Asia and Africa will become important when China has realized her program for industrialization.

A few examples of Chinese aid in the construction of factories and facilities in the underdeveloped countries have already been mentioned in connection with Chinese gifts and credits. In Cambodia the Chinese People's Republic provided aid in the construction of a textile and paper plant, a cement works, a plywood factory, and other projects. Eight Chinese specialists were active in Cambodia.

Although it was specified in the agreement between China and Cambodia that the factories would be built in 1956 and 1957, the plywood factory appears not to be finished yet. In 1958 the Chinese Minister of Foreign Trade, Yeh Chi-chuang, reported that "the planning and survey work for this factory is now fully underway."

We also learn from the Chinese Minister of Foreign Trade that in the talks between the premiers of the two countries in August 1958 China agreed to "help Cambodia in the construction of small iron and steel works, including assistance in the winning of underground fuels and the construction of other enterprises necessary for furnishing the required raw materials, without any compensation and without conditions of any kind." (Bulletin der Botschaft der Volksrepublik China in der DDR / Bulletin of the Embassy of the Chinese People's Republic in the German Democratic Republic /, December 1958, pages 32-33)

In Ceylon, China is assisting in the laying out of rubber plantations, and in Burma in the construction of a cotton-spinning plant. Indonesia is building a textile factory with Chinese assistance.

In December 1956 two contracts were drawn up between the Chinese corporation "Technoexport" and the Burmese "Society for Industrial Development" concerning expansion of the textile plant at Tamaing (near Rangoon) and Chinese assistance in the form of specialists



sent to Burma. "This weaving plant will soon be in operation."  
(Bulletin der Botschaft der Volksrepublik China in der DDR /Bulletin of the Embassy of the Chinese People's Republic in the German Democratic Republic/, December 1958, pages 32-33)

"Before construction of this plant was begun," said Yeh Chichuang, "the Chinese construction organizations and textile machinery plants sent people into the cotton-growing regions of Burma in order to conduct on-the-spot tests. At the same time, weaving experiments were undertaken in China over a long period of time using Burmese cotton, in order to be certain that the construction designs and the equipment for the plant would be suitable for Burmese weather conditions and the peculiarities of Burmese cotton." (above source)

The complete equipment for a textile plant with 21,600 spindles and 196 looms mentioned above was for this cotton plant.

China concluded an agreement on scientific-technical collaboration with Yemen on 12 January 1958. According to this agreement China is to provide assistance to Yemen over a period of ten years by sending specialists to Yemen, by exporting machines and equipment for light industry, and by training the coming generations at Chinese higher schools and technical schools, and in Chinese plants. China is to cooperate with Yemen in the construction of highways, a cigarette factory, a glass and preserves factory, a fish preserving and sugar factory, a textile plant, and an aluminum products plant. It is interesting to note that the harbor at Hodeida is being built with a Soviet credit while the access roads are being built by the Chinese.

"Preparatory work for the construction of the highways and factories in Yemen to which China has committed itself on the basis of the agreement of January 1958 on scientific, technical, and cultural collaboration, is now in full swing." (Bulletin der Botschaft der Volksrepublik China in der DDR /Bulletin of the Embassy of the Chinese People's Republic in the German Democratic Republic/, December 1959, page 33)

At the Chinese-Indonesian negotiations in Peiping on 3 November 1956 conclusion of an agreement on scientific-technical collaboration was discussed. Such an agreement has not yet been made. Only the first steps toward such cooperation were made:

"During the negotiations between the Indonesian Trade Delegation and the Chinese organizations (November 1956) the bases were laid for an expansion of economic and technical cooperation. At the wish of the government of Indonesia, the government of the People's Republic of China declared itself ready to export light industrial equipment to Indonesia and to send Chinese specialists to Indonesia to assist in the economic build-up. The Chinese People's Republic also declared itself willing to accept Indonesian trainees for practical training courses." (Die Wirtschaftsentwicklung der Laender der Volksdemokratie Asiens /The Economic Development of the People's Democracies of Asia/, page 200)

One final example: "The first cement works in Nepal will be built with Indian financial aid, using plans drawn up by Chinese engineers." (G. Mirskiy and L. Stepanov, Ueber die Perspektiven der wirtschaftlichen Zusammenarbeit der Laender Asiens und Afrikas /On the Prospects for Economic Cooperation among the Countries of Asia and Africa/, Moscow, 1958, page 69)

(c) China's Foreign Trade with the Underdeveloped Countries

Chinese economic literature divides China's economic relations to the underdeveloped countries during the period since the founding of the People's Republic into three stages. The first stage consists of the years 1949 to 1952. During this period China did not have trade relations with a single Asian or African country on the basis of a trade agreement. The first trade agreement between China and an underdeveloped country was, as already noted, the trade agreement of 14 September 1952 with Ceylon. The UN General Assembly embargo of 18 May 1951 against trade with China also falls in this period. Although the UN delegations from India, Indonesia, Burma, Pakistan, Egypt, Syria, and Afghanistan abstained from voting on the China Embargo, the embargo nevertheless had its effect on the relations of the underdeveloped countries to the Republic of China.

Thailand and the Philippines stopped all trade with China at that time. Trade with Malaya was reduced to a minimum. Not until June 1956 did Malaya and Singapore lift the ban on rubber export to China. Indonesia declared itself no longer bound by the UN embargo on 6 July 1956.

In September 1956 Thailand permitted resumption of trade with China, allowing its merchants to travel to China and to engage in trade of non-strategic goods.

Only Ceylon, which at that time did not belong to the UN, exported rubber to China during this period, and it is no accident that Ceylon was the first underdeveloped country to conclude a trade agreement with China at the governmental level.

Today, strategic goods such as rubber, tin, tungsten, zinc concentrate, copper, manganese ore, etc. are on the list of exports to China from India, Indonesia, Burma, Ceylon, Cambodia, and other countries.

The second stage covers the period from the end of 1952 until the Bandung Conference. This was the period during which China concluded the first trade agreements at the government level with Ceylon, Burma, and India, and a commodities exchange contract with Pakistan.

The third, and present, stage of China's trade relations with the underdeveloped countries of Asia and Africa is characterized by commodities exchange with 47 Afro-Asian countries, including 23 African countries. As already noted, China now has trade relations with 14 countries in Africa and Asia on the basis of governmental agreements.

(In August 1959 it was reported that China now has trade relations with 52 countries and territories in Asia and Africa. Unser Freund China [Our Friend China], Encyclopedia, Moscow, 1959, page 368. In the 14 countries with which China has trade relations on the basis of governmental agreements, the two sectors of the UAR, Egypt and Syria, are counted separately.)

During this period, as indicated above, China also began to develop other forms of economic cooperation with the underdeveloped countries: gifts and credits, technical aid in the setting up of small industrial projects and factories, the sending of Chinese specialists, and the training in China of technical personnel from the underdeveloped countries.

The trade agreements which China has concluded with several Afro-Asian countries provide in most cases for the preservation of the system of mutual advantage. A number of these agreements provide for exchange of trade representations. China has trade representations in India, Egypt, Syria, and Lebanon. The opening of trade representations was also included in the agreements concluded with Nepal and the Sudan.

The two Tibet agreements which China concluded with India and Nepal have particular current importance today in the light of the recent events in Tibet, i.e., the agreement concluded in Peiping on 29 April 1954 on traffic and trade between India and the Tibetan region of China, and the agreement between China and the Kingdom of Nepal concluded in Katmandu on 20 September 1956. Not only did these two agreements provide for exchange of trade representations, they also provide that traders from India and Nepal may do business at specified places in Tibet. The Chinese acceded to the opening of trade markets at a number of places in Tibet for traders from India and Nepal.

Article 3 of the agreement with Nepal reads as follows: "The parties to the agreement are in accord that pilgrimages by religious adherents from one country to the other will be allowed to continue in accordance with religious customs. Personal baggage and items necessary to the pilgrimage which are carried with pilgrims of one party will be allowed to pass by the other party free of duty."

In the agreement with India we read that, "The parties to the agreement are in accord that pilgrimages by the religious adherents of both countries will be allowed to take place with the following provisions:

1. Pilgrims of the Lamaist, Humanistic, and Buddhist faiths from India may visit Kang Rimpoche (Kailas) and Mavam Tso (Manasarovar) in the Tibetan Region of China in accordance with custom.
2. Pilgrims of the Lamaist and Buddhist faith from the Tibetan Region of China may visit Benares, Sarnath, Gaya, and Sachi in India, in accordance with custom.
3. Pilgrims who regularly visit Lhasa, may continue to do this in accordance with custom.

(Texts of both agreements in the language of the Institute for Asian Studies in Hamburg, Frankfurt/Main-Berlin, 1957, pages 78 and 89.)

India has made it known that after the events in Tibet the Chinese violated these provisions.

On Chinese exports to the underdeveloped countries it is reported that "In the last few years the People's Republic of China has exported the products of its textile industry and light industry in increasing quantities to the markets of Asian and African countries. The export of cotton cloth has reached particularly great proportions. In recent years Chinese cotton cloth has constituted about 1/3 of the cotton cloth imported into the countries of Southeast Asia.

"In addition to cotton, such products of Chinese industry as paper, bicycles, sewing machines, fountain pens, vacuum bottles, flashlights and flashlight batteries, etc., have become standard items of export to the countries of Asia and Africa. In 1957 the People's Republic of China began to export radio receivers and tubes to Singapore, Cambodia, the United Arab Republic, Jordan, and other countries.

"In the years of the first five-year plan China also began to deliver products of heavy industry to the economically weak countries. Since 1955, for example, it has delivered rolled steel to the markets of Asian and African countries.

"In 1957 China exported rolled steel products to India, Indonesia, Egypt, and a few other countries. There is a great demand in the markets of Asia for Chinese nails and steel wire; China exported these items last year to India, Burma, Indonesia, and Malaya.

"The successful development of the machine-building industry in China during the years of the first five-year plan made it possible to satisfy the internal needs for certain types of equipment and to divert some of the products for export to the countries of Asia and Africa. The list of equipment available for export increases every year. At the end of 1957 the foreign trade organizations of China delivered to the countries of Asia and Africa cutting machine tools, electric motors and generators, equipment for the textile, light, and food industries. There is a particularly large demand in the markets of these countries for Chinese equipment for the textile industry." (Die Wirtschafts-entwicklung der Laender der Volksdemokratic /The Economic Development of the People's Democracies/, pages 173-174)

Concerning China's imports from the countries of Africa and Asia we read: "With each year the Chinese foreign trade organizations increase their purchases of rubber, shellac, cotton, coco oil, copra, burlap and burlap sacks, spices, and other goods which make up a large percentage of the export from the countries of Asia and Africa.

"In recent years China has become one of the largest rubber importers in the Asian markets. With development of the Chinese automobile and aircraft industry, as well as the bicycle industry, the demand for rubber in China increases constantly. As a result the import of rubber increases.

"In 1956 China imported 96,400 tons of rubber; in the first 11 months of 1957 it has imported 105,100 tons. An important Chinese

import item from the African and Asian countries is cotton. In the seven years from 1950 to 1956 China imported 430,000 tons of cotton, i.e., a yearly average of 63,000 tons. (Die Wirtschaftsentwicklung der Laender der Volksdemokratie / The Economic Development of the People's Democracies /, page 176)

The chief cotton purveyors to China are Ceylon, Indonesia, and Malaya. More than 50% of the rubber imported by China comes from Ceylon. China imported 55,000 tons of rubber from Ceylon in 1956 and 50,300 tons in the first eleven months of 1957. Rubber occupies first place in the list of items exported to China by Indonesia. From Malaya China imported 8,800 tons of rubber in 1956 and 31,900 tons in 1957. In closing we present a survey of the development of Chinese trade with some of the important underdeveloped countries.

Trade Between the People's Republic of China and its Most Important Partners in Asia and Africa

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
<u>India</u>								
Chinese Imports	29.2	52.8	40.8	29.2	34.4	76.4	55.6	40.8
Chinese Exports	<u>5.6</u>	<u>114.8</u>	<u>136.0</u>	<u>14.0</u>	<u>19.2</u>	<u>32.4</u>	<u>85.2</u>	<u>31.0</u>
Total Turnover	34.8	167.6	176.8	43.2	53.6	108.8	140.8	71.8
<u>Indonesia</u>								
Chinese Imports	--	--	--	--	11.2	24.8	46.8	105.2
Chinese Exports	--	--	--	--	<u>14.0</u>	<u>39.6</u>	<u>120.8</u>	<u>106.9</u>
Total Turnover					25.2	64.4	167.6	212.1
<u>Burma</u>								
Chinese Imports	--	--	--	--	0.4	70.0	57.6	36.4
Chinese Exports	--	--	--	--	<u>2.0</u>	<u>9.2</u>	<u>88.2</u>	<u>50.0</u>
Total Turnover					2.4	79.2	145.8	86.4
<u>Ceylon</u>								
Chinese Imports	--	30.4	104.0	203.2	186.0	102.0	153.2	140.8
Chinese Exports	--	<u>3.6</u>	<u>158.0</u>	<u>175.6</u>	<u>133.2</u>	<u>67.2</u>	<u>112.4</u>	<u>70.4</u>
Total Turnover		34.0	262.0	378.8	319.2	169.2	265.6	211.2
<u>Pakistan</u>								
Chinese Imports	--	181.6	335.6	29.2	104.4	126.8	63.6	38.0
Chinese Exports	--	<u>68.0</u>	<u>20.4</u>	<u>13.2</u>	<u>6.4</u>	<u>0.8</u>	<u>2.0</u>	<u>31.2</u>
Total Turnover		249.6	356.0	42.4	110.8	127.6	65.6	69.2

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
<u>Egypt</u>								
Chinese Imports	14.0	4.0	35.6	41.6	45.6	98.0	96.8	168.4
Chinese Exports	<u>3.6</u>	<u>3.6</u>	<u>2.8</u>	<u>2.8</u>	<u>3.2</u>	<u>3.6</u>	<u>44.4</u>	<u>82.4</u>
	17.6	7.6	38.4	44.4	48.8	101.6	141.2	250.8

(Source for the table: Kapelinskiy, loc. cit., pages 494, 497-498, 500, 502 and 503)

This table shows the rather sporadic character of China's trade with its most important partners among the underdeveloped countries.

By summarizing the above table we find the following picture:

#### The Balance of Trade with the Six Partners

##### India from 1950 to 1957

Chinese Export Total	438.2 million rubles
Chinese Import Total	359.2 million rubles
Chinese Surplus (+)	+79.0 million rubles

##### Indonesia from 1954 to 1957

Chinese Export Total	281.3 million rubles
Chinese Import Total	188.0 million rubles
Chinese Surplus (+)	+93.3 million rubles

##### Burma from 1954 to 1957

Chinese Export Total	149.4 million rubles
Chinese Import Total	164.4 million rubles
Chinese Deficit (-)	-15.0 million rubles

##### Ceylon from 1951 to 1957

Chinese Export Total	720.4 million rubles
Chinese Import Total	919.6 million rubles
Chinese Deficit (-)	-199.2 million rubles

##### Pakistan from 1951 to 1957

Chinese Export Total	132.0 million rubles
Chinese Import Total	879.2 million rubles
Chinese Deficit	-747.2 million rubles

Egypt from 1950 to 1957

Chinese Export Total	146.4 million rubles
Chinese Import Total	504.4 million rubles
Chinese Deficit	-357.6 million rubles

China's trade with several of the underdeveloped countries had a very one-sided character. Particular examples of this are Pakistan, Ceylon, and Egypt. Up until 1957 China exported almost no goods to Egypt and Pakistan but was an important importer of commodities from these countries. Not until 1957 was there a change and a normalization of commodity exchange between China and Egypt and Pakistan.

To date no trade agreement has been concluded between China and Pakistan on the government level. The trade takes place on the basis of contracts which provide for the exchange of Chinese bituminous coal for Pakistani cotton. One such contract was signed in November 1958 for the year 1959. In addition, China has business relations with a rather large number of firms in Pakistan.

In the case of Indonesia it should be remembered that this country received a credit from China in the form of a postponement of trade debts.

With respect to the Chinese deficit in trade with Ceylon we learn that "At the beginning of 1957 Ceylon planned to purchase food-stuffs and textiles in China in the amount of 80 million Ceylonese Rupees on account of the debts of the People's Republic of China to Ceylon which resulted from the carrying out of the commodities exchange agreement. In past years these debts were paid in pounds sterling."

(Die Wirtschaftsentwicklung der Laender der Volksdemokratie Asiens  
The Economic Development of the People's Democracies of Asia, page 201)

Whether China undertook similar settlements with other creditors in Asia and Africa would be hard to say, for to date China has not published a trade balance.

Although we have not yet dealt with China's trade with the capitalistic countries, we may make one point here. The Chinese economic and financial experts, as well as Minister of Finance Li Hsien-nien, maintain that the Chinese foreign trade balance is equalized. Neither China's trade with the USSR, nor with the East European Bloc countries, nor with the underdeveloped countries can be adduced as evidence for such a statement. And the Chinese surplus in trade with Japan and several western capitalistic countries is certainly not sufficient to balance the Chinese deficit which existed until 1956 in her trade with the USSR and the deficits in trade with the other Bloc countries and the underdeveloped countries.

And now let us turn to the economic relations between China and Japan.

### 3. Economic Relations with Japan

Economic relations between China and Japan have been broken off since May 1958. At that time the Chinese annulled the Fourth Trade Agreement between the "Japanese Import-Export Association" and the Peiping "China Committee for the Furtherance of International Trade" which had only been signed on 5 March 1958. The "Japanese Import-Export Association" is an organization which, according to the Chinese, "represents the interests of Japanese big capital" and which is interested in Chinese trade.

In 1958 China withdrew its trade mission from Japan and forced the Japanese business circles and merchants to quit China.

The ostensible reason for this action on the part of China was the fact that the flag of the Chinese People's Republic had been torn down at a stamp exhibition in the city of Nagasaki. The real reasons were political. On the basis of the growing efforts, under the advocacy of Japanese business and entrepreneur circles, to normalize Japanese trade with China, the Chinese hoped to make a breakthrough and force the Japanese government to conclude a trade agreement on the government level. This did not succeed.

The objective prerequisites to an extension and development of Chinese-Japanese trade are actually present. Japan is the only highly industrialized country in Asia in immediate proximity to China. Japan can furnish China the same commodities (equipment, transportation media, chemicals, etc.) which it now imports from western nations. Moreover, China could offer in advantageous exchange such items as bituminous coal, iron ore, and, above all, rice, for which there is no great demand in western markets.

Japan is desirous of exporting capital goods, and, as the Japanese statistics show, was able to acquire such products as coal, salt, and rice more cheaply from China than from the European markets. Japan was one of the first countries to lift the China Embargo. Until the Chinese broke off economic relations with Japan, the government of the latter was actually under great pressure from the Japanese public to develop the China trade.

Concerning this it is reported that "The question of normalizing relations with the Chinese People's Republic became one of the most burning problems in modern Japan. In recent years a broad movement has grown up in the country demanding the removal of hindrances to trade with China.

"In the course of this movement in Japan several public organizations have been created, the goal of all of which is the furtherance of the development of trade with China. The 'Council for Furthering Japanese-Chinese Trade' began its activities in 1952. The 'Parliamentary League' was created in August 1953 for the same purpose. Three hundred and thirty-five members of the Diet, representing all parties and groups, belonged to this league. In September 1954 the 'Association for Furthering the Development of International Trade'



was formed, incorporating the former 'Council.' The first organizations for furthering the development of trade with China were made up mostly of personalities from the public and political life, but it is interesting to note that the 'Association for Furthering the Development of International Trade' was regarded by the Japanese press as a phenomenon reflecting interest in China trade on the part of 'the leaders of the business circles and the large concerns.' At its head stood Murata Sodso, a big businessman, statesman, and diplomat. On the initiative of the government the Japanese Import-Export Association for Trade with China was formed at the end of 1955; this organization represents above all the interests of big capital. The organizations named above were the initiators in the concluding of the trade agreements with the Chinese People's Republic. In the period from 1952 to 1958 a total of four such agreements were concluded: the first on 1 June 1952, the second on 29 October 1953, the third on 4 May 1955, and the fourth on 5 March 1958." (Kapelinskiy, loc. cit., page 507)

These agreements, concluded on the "private level" were each valid for one year and after 1953 were in each case extended until conclusion of the following agreement.

On the basis of these agreements Japan assumed in 1955 second place among the capitalist countries in trade with China. "In 1957 Japan was the second largest importer of Chinese goods among the capitalist countries and the largest exporter to China among the capitalist countries." (Kapelinskiy, loc. cit., pages 508-509)

With the third agreement (4 May 1955) between the Japanese and Chinese organizations, the two countries exchanged trade missions and set up direct relations between their respective state banks. At the end of 1956 the Japanese Cabinet decided to permit unofficial trade representations to solve the problem of conversion between the two state banks. In the fourth agreement (5 March 1958) on the "private level" the same problems were treated and the setting up of official trade representations and, in particular, the conclusion of governmental trade agreements was declared essential.

But the Kishi government declined to grant immunity rights to Chinese trade representatives in Japan and also refused to give the trade agreements the character of official governmental agreements. Thus it came to a rupture in the trade relations between China and Japan.

The Chinese assumed that by breaking off economic relations they would give a new impetus to the movement in Japan for the normalization of trade relations. But there were two sides to the coin; the losses to China's foreign trade resulting from the rupture were not small, in particular in the effect on the trade balance. Japanese statistics on trade with China during the years 1950 to 1958 are eloquent on this subject:

Chinese-Japanese Trade in the Years from 1950 to 1958  
(in Millions of Rubles)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
Total Volumes:	231.3	109.6	62.0	136.8	239.6	437.2	604.0	563.8	232.3
China Export:	152.8	86.4	59.6	118.8	163.2	323.2	334.6	321.9	153.8
China Import:	78.5	23.2	2.4	18.0	76.4	114.0	169.3	241.9	78.5
Chinese Trade Surplus: (+)	74.3	63.2	57.2	100.8	86.8	209.2	65.2	80.0	75.3

(Kapelinskij, loc. cit., pages 508-509; Unser Freund China /Our Friend China/, Encyclopedia, Moscow, 1959, page 370)

#### V. Trade with the Countries of Western Europe

Economic relations between the People's Republic of China and the countries of Western Europe are limited to commodities exchange. Other forms of economic cooperation between these countries and China do not exist. Only with Austria has China concluded an agreement (resulting from the Vienna Fair of September 1956) for the exchange of technical and trade specialists. In 1957 a contract was signed between China and Finland concerning aid by the latter in the construction of a paper plant in China. These are the only two examples of this type of economic cooperation with countries of Western Europe.

At one time -- before the founding of the Chinese People's Republic -- the decisive portion of Chinese trade was with the countries of Western Europe and America. Today the United States has no trade with China. Since the China Embargo in 1951 Western Europe's share in Chinese foreign trade has been reduced sharply. Not until 1957 did a change in this situation set in. With the relaxation of the China Embargo in 1957 a growth in Chinese-Western Europe trade turnover has become noticeable.

At the present time China has regular trade relations with almost all Western European countries, though, to be sure, these relations are mostly based on private contracts rather than agreements at the government level. It should also be emphasized that even today a large part of the trade between China and European countries takes place through third party countries.

The most important West European contractors in Chinese trade in recent years have been England, the Federal Republic of Germany, Switzerland, France, Belgium, Holland, Italy, Sweden, and Finland. These 9 countries account for 88 to 90% of China's trade volume with Western Europe. The largest contractor is England, but only in direct trade. If we include trade via third party countries, the Federal Republic of Germany has been first so far among West European countries in trade with China. (Not until 1959 did a change develop here, a

a matter we will go into in conclusion).

China's trade with the 9 countries named above may be regarded as a reflection of Chinese-West European trade in general:

China's Trade with its Most Important Partners in Western Europe  
(in Millions of Rubles)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>England</u>							
Total Volume	155.8	116.4	84.0	227.2	261.8	295.6	506.8
China Export	115.6	86.0	33.6	138.4	141.0	159.2	207.7
China Import	40.2	30.4	50.4	88.8	120.8	136.4	299.1
<u>West Germany</u>							
Total Volume	34.6	211.2	81.3	288.4	361.2	355.2	883.2
China Export	22.0	195.2	70.2	183.6	212.8	164.8	233.7
China Import	12.6	16.0	11.1	104.8	148.4	190.4	649.5
<u>Switzerland</u>							
Total Volume	125.6	154.4	106.1	158.4	217.6	223.6	170.5
China Export	54.2	51.6	36.3	63.2	76.4	50.0	44.2
China Import	71.4	102.8	69.8	95.2	141.2	173.6	126.3
<u>Sweden</u>							
Total Volume	--	--	--	--	34.8	120.3	85.8
China Export	--	--	--	--	10.4	12.4	15.3
China Import	--	--	--	--	24.4	107.9	70.5
<u>France</u>							
Total Volume	104.1	77.6	35.3	76.0	150.4	145.6	222.4
China Export	58.6	69.6	22.2	47.2	59.2	58.4	45.2
China Import	45.5	8.0	13.1	28.8	91.2	87.2	177.2
<u>Belgium</u>							
Total Volume	50.4	114.2	21.2	35.6	106.4	103.6	225.1
China Export	30.0	73.6	18.8	7.6	20.8	14.8	24.3
China Import	20.4	40.6	2.4	28.0	85.6	88.8	208.8

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>Holland</u>							
Total Volume	--	70.4	19.6	44.0	69.6	61.2	--
China Export	--	69.2	19.6	32.4	45.6	39.2	--
China Import	--	1.2	--	11.6	24.0	22.0	--

Italy

Total Volume	12.2	35.2	23.2	39.2	87.2	86.4	183.3
China Export	6.8	31.6	8.6	16.4	45.6	27.6	52.7
China Import	5.4	3.6	14.6	22.8	41.6	58.8	130.6

Finland

Total Volume	--	--	26.1	--	38.5	49.0	--
China Export	--	--	--	--	8.9	24.6	--
China Import	--	--	26.1	--	19.6	24.4	--

(Sources for the Table: Kapelinskiy, loc. cit., page 513; for Sweden and Finland, Die Wirtschaftsentwicklung der Laender der Volksdemokratie /The Economic Development of the People's Democracies/, page 193; Unser Freund China /Our Friend China/, page 370)

The character of China's commodity exports to the countries of Western Europe has changed but little. In general China exports the traditional Chinese products such as vegetable oil, oil seeds, tea, wool, silk products, gut, bristles, egg products, etc. One gains the impression that China has reserved export of non-ferrous metals and other industrial raw products for the Communist Bloc.

Concerning China's imports from the West European countries we read: "In 1956 China increased her imports from these countries of many products necessary for her economy. It is important to note that the increase in imports consisted to a significant degree of products from the list of those forbidden for export to China. Thus, for example, in 1956 England delivered 16,000 tons of galvanized iron and 2,000 tons of sheet iron; at the end of that year English firms concluded contracts for the delivery of 5,000 tons of rolled iron to China. In addition, England delivered to China in the past year a large shipment of tractors (about 500).

"From West Germany also China imported a significant number of tractors (536,000 pounds sterling worth), dredges, and other equipment; from Switzerland, electric power and electro-technical equipment, machines, and replacement parts; from France, tractors (485), machine tools, and various types of equipment and tools. Raw materials and chemical products also constitute a large part of China's imports from

these countries." (Die Wirtschaftsentwicklung der Laender der  
Volksdemokratie Asiens /The Economic Development of the People's  
Democracies of Asia, page 209)

China also imported wool from England, France, and Italy, and chemical fertilizers from Belgium, Italy, Austria, and the Federal Republic of Germany. Dyes, rayon, pharmaceuticals, and watches are also on China's list of imports from Western Europe.

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